

# Financial Distress and Rejuvenation Mechanism for State Road Transport Undertakings in India (A Study on RSRTC)



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## Abstract

The Paper analysis the 'Financial Distress and Rejuvenation Mechanism for Road Transport Undertakings in India' (A Study on RSRTC) emphasis on financial condition of state transport undertakings specially on Rajasthan state Road Transport Corporation (RSRTC). The research paper analysis various aspects and dimensions and discussed through the measurement of rejuvenation mechanism. The logit probability analysis technique is used. The study will be useful in comparing the profitability of RSRTC. The research paper shows that there are multiple reasons for failure of State Road Transport Undertakings Specially RSRTC.

**Keywords:** Transport, Corporation, National, Highways, Traffic, Commercial, Corridors, Undertakings, Road, Passenger, Development, Connectivity, Private Sector.

## Introduction

India has a network of wide transportation system. State Road Transport Corporation plays key role through various states. India has a network of National and State highways connecting all the major cities and State capitals also, forming the economic back bone of the country.

As of 2013, India has a total of 70934 KM (44076 Miles) of National highways of which 1208 KM (751 Miles) are classified as expressways. Under National Highways development Projects (NHDP), work is under progress to equip some of the important National highways with four lanes, also there is a plan to convert some stretches of these roads to six lanes. However congestion and bureaucratic delays route ensures that trucking goods from Gurgaon to the port in Mumbai can take up to 10 days.

As per the National Highway authority of India. (NHAI) about 65% of the freight and 80% passenger traffic are carried by the roads. The National Highway carry about 40% of Total Road traffic, though only 2% of the road network is covered by these roads, average growth of the number of vehicles has been around 10-16% per annum over recent years, Highways have facilitated development along the route and many towns have spring up along major highways. Road transport benchmark freight index (BF1) initiate taken in India in recently by ITRANS.

All National Highways are metalled, but very few are constructed of concrete, the most notable being the Mumbai Pune expressway. In recent years construction has commercial on a national wide system of multilane highways, including the golden quadrilateral and north-south and east west corridors which lines the layers cities in India. In 2000, around 40% of villages in India lacked access to all weather roads and remained isolated during the monsoon season.

To improve rural connectivity. Pradhan Mantri Gram Sadak Yojna, a project founded by the Central Government with the help of World Bank, was launched in 2000 to build all weather roads to connect all habitations with a population of 500 or above (250 and above for hilly areas) As per 2013 estimates, the total Road length in India is 4689842 KM making the Indian Road network the second largest road network in the world after the United State.

Throughout the developing world, State Road Transport Corporation Undertakings (S.R.T.U.s.) is a major instrument for industrial and commercial development. S.R.T.U.s. also termed as State Enterprises or Government Enterprises constitute a major segment of the industrial activity in our country and these undertakings born as the outcome of the conscious policy of the government to speed up the industrialization of the country.

In the process of economic development of India a vital role space was assigned to the public sector and was enshrined in the Industrial Policy Resolution of 1948 and was further emphasized in the Industrial Policy Resolution, 1956. Public Sector in India was envisaged to promote balanced and equitable growth of economy. This led to the phenomenal growth of the public Sector Enterprises in India at Centre and State levels during the planning period.

State Level S.R.T.U.s. are an important segment of S.R.T.U.s. in India. These are vital instruments of public policy for the states. There has been a spectacular growth in the number of these enterprises and the investments in them have registered a phenomenal increase since independence. However, their financial record is poor and managerial performance chaotic. The transformation has assumed significance for the S.R.T.U.s. due to high incidence of sickness. The unique role of the S.R.T.U.s. in the country's economy has been widely recognized and their operational efficiency deserves to be closely monitored through improved attention being paid to the management system.

It is well known that the loss making and operationally and financially inefficient S.R.T.U.s. need to have a turnaround through reorientation of their managerial and operational policies with the application of pragmatic strategies of turnaround addressing the realities and challenges of a respective enterprises. S.R.T.U.s. today cover a wide spectrum of activities in basic and strategic industries like steel, coal, minerals and consumer goods, trading and marketing activities, pharmaceuticals and fertilizers on the one hand, and consumer goods, trading and marketing activities, transportation services, contract and consultancy services, tourist services, financial services and development of small-scale industries, on the other. While some of these enterprises and operating under monopoly or near monopoly conditions, there are others working under competitive conditions. There are several reasons for the creation and maintenance of S.R.T.U.s. First, there is persistence of monopoly power in many developing countries. Direct government control may be required to ensure that prices are not set above the marginal costs of producing the output. Other reasons for the creation of PSUs include capital formation engaging in promising economic activities, the desires of some government of developing countries to gain national control over strategic sectors of the economy such as defense, over MNCs whose interests may not coincide with those of the country, or key sectors for planning purpose. Finally, ideological, social and welfare motives may be a factor in the creation of government undertakings.

However, the poor performance of S.R.T.U.s. in the earlier years made reform increasingly urgent in the context of the broader strategy of liberalization of the economy to deal with the perceived weaknesses of India's development strategy in general and S.R.T.U.s. in particular. It has been widely accepted that S.R.T.U.s. in India have remained in poor financial

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condition owing to political forces that constrain their function.

The objective orientation, rationing and growth of Public Sector and spectacular in India. But, due to the operational and managerial deficiencies and problems the spree of privatization started with a strong policy emphasis and reorientation of the Government philosophy since the initiation of economic reforms in 1991. The Industrial Policy Statement announced by the GOI in July, 1991 envisaged the disinvestment of a part of the govt. holdings in the share capital of select S.R.T.U.s. in order to provide market discipline and to improve the performance of the S.R.T.U.s.

#### **Review of Literature**

The significance of S.R.T.U.s. continuously increasing as there is no suitable substitute of it and resources and limited. During selecting the topic of research, it came in to my notice that the following type of literature is available in the field of S.R.T.U.s. :

#### **Research Paper**

#### **Turnaround Management in Andhra Pradesh State Road Transport Corporation – a Case Research Study by Prof. V. Narasimha Rao**

In research paper submitted by Prof. V. Narasimha Rao, a complete case study on turnaround management in Andhra Pradesh State Road Transport Corporation was covered. The summary of research study shows Public Enterprises constitute a major segment of industrial activity and there was a phenomenal growth of these organizations during the planning period. Road Transport is a dominant mode of transportation which covers 19 percent of the passenger traffic and 65 percent of freight in India. It is well known fact that operationally and financially inefficient public enterprises need to have turnaround management strategies addressing the challenges of a respective enterprises. Andhra Pradesh State Road Transport Corporation (APSRTC) established under the present name on 11<sup>th</sup> January, 1958 is facing operational, financial and organizational problems. The APSRTC could not convert its revenue into net profit due to under utilization of assets till 2003. However, it is evident that there was marginal improvement of net profit during the period 2004-10. APSRTC adopted retrenchment, re-positioning, re-organization and financial strategies in its turnaround management process. This paper is an attempt to examine the turnaround management strategies in APSRTC.

#### **Financial Distress Syndrome in State Road Transport Undertakings – This Research Paper Submitted by Dr. R.K. Agarwal and Shri Pramod Bhargava.**

It was published in Indian Journal of Transport Management. According to this research paper Financial distress analysis is an effective tool which facilitates the early detection of the sickness and the flaws in the financial state of any business. The paper "Financial Distress Syndrome in State Road Transport Undertakings" analyses financial distress in ten SRTUs. The study is useful in judging the intensity of financial crisis in these undertakings. It identifies the variables influencing the financial distress in SRTUs and concludes that the SRTUs under review are likely

to face bankruptcy if timely corrective steps are not implemented.

### **Urban Passenger Awareness of the Marketing Schemes in APSRTC**

An Assessment, depicts measures undertaken to recognize the current marketing practices of APSRTC and record them to enable other STUs to adopt them. The analysis focuses on understanding the level of awareness of the marketing schemes of the corporation amongst the passengers.

### **ARTICLES**

1. **“On-Street Parking in Chennai City : An Empirical Analysis”** analyses the demand and availability of vehicle parking areas in Chennai. The various aspects of parking characteristics such as turnover, duration of parking, accumulation and volume in the parking areas are discussed in detail in the paper. The author has suggested short, medium and long term measures to mitigate the parking problems.
2. **“Employees’ Job Satisfaction Towards HRM Practices in Tamil Nadu State Transport Corporation (Kumbakonam) Ltd”** examines the HRM policies and practices being following in the corporation and analyses the employees’ opinion towards enhanced job satisfaction.
3. **Perceptions of Road Users on Transport – A Case Study of Mysore City”** identifies the different factors that influence the perceptions of the common citizens with their travel characteristics/trip generation in Mysore. The paper critically examines the present situation of traffic management in Mysore and investigates the perception of the general public towards the prevailing traffic management. The review also presents the models which may be used in transport planning and traffic management.

### **Identification of Research Gap**

After reviewing the available literature it is found that it is a new concept and a wild research is needed in this area S.R.T.U.s. have significant presents in entire economic activities. These undertaking are profitable undertaking but very few S.R.T.U.s. in India are earning profits. Most of the S.R.T.U.s. have been incurring huge losses for the last several years. S.R.T.U.s. are the dominant public enterprises and plays a big role in state government activities. Having research in this area S.R.T.U.s. may be given some techniques and tools by which these organization may move from loss to profit.

### **Need of the Study**

India is a rapidly developing country, wedded to the policy of establishing a socialistic pattern. Huge investments have been made in the public sector by the government since independence. Of late, the government has adopted the policy of liberation, privatization and globalization of the economy.

The impact of these initiations in reflected in the financial position of the road transport undertakings. Although a lot of efforts are made by the government to run these units proficiently, but most of the undertakings are running at a loss.

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These SRTUs face tough competition from the new entrants. In such a situation, it is essential for these SRTUs to identify the causes of the financial weakness and accordingly make effort to eliminate them. Financial functions play an important role in business management but generally, receive less emphasis than the production and distribution functions.

‘Precaution is always better than cure’ and accordingly it is better to identify any problem(s) so that the timely remedial steps may be taken to overcome them.

### **Scope of the Study**

Presently, there are around 75 State Transport Undertakings (STUs) engaged in passenger road transport. The STUs are organized in the following four ways :-

1. Undertakings formed under Road Transport Corporations Act, 1950.
2. Undertakings formed as companies under Corporations Act, 1956.
3. Undertakings working as a department of the state governments.
4. Undertakings working as municipal undertakings.

For an in depth study, sample data of the following SRTUs will be analysed :-

1. Rajasthan State Road Transport Corporation (RSRTC).
2. Andhra Pradesh State Road Transport Corporation (APSRTC).
3. Maharashtra State Road Transport Corporation (MSRTC).
4. Karnataka State Road Transport Corporation (KnSRTC).
5. Orissa State Road Transport Corporation (OSRTC).

### **Objective of Study**

Numerous attempts have been undertaken to study the functioning of SRTUs, but it is warranted, focusing the attention on the analysis of financial distress existing in the SRTUs. as the majority of the undertakings are continuously incurring heavy losses. Therefore, a deep study of the financial distress syndrome analysis of SRTUs is important. The study is undertaken with the following objective :

1. To assess the financial efficacy of SRTUs under study, by applying the technique of Univariate and Multivariate Analysis.
2. To compare the probability of financial distress among the STRUs under study on the basis of statistical tests.
3. Highlight the main reasons for the financial distress in the SRTUs.
4. To probe if there is any significant difference between the financial positions of SRTUs under study.
5. To offer constructive suggestions to improve the financial status of the SRTUs under examination.
6. To suggest measures to increase profitability.
7. To analyze leverage and its effect on profitability.
8. To suggest ways of maximizing of return to the passengers and government.

### **Hypothesis**

Hypothesis testing is a technique by which some claims can be proved or disproved. It is a logical

test of determining findings and arriving at conclusions. For the study the following hypothesis is formulated :-

$H_0 =$  There is  $H_0$  financial distress syndrome and crunch in the SRTUs under study.

### Research Methodology

This study is based on both primary and secondary data. The sources of secondary include the annual reports, performance and review reports of the corporation. In addition, the published data of the Department of public Enterprises, Government of India form the basis of secondary data. The published articles from the journals and the literature from reputed books also form the secondary data.

The collected data will be classified and tabulated under different appropriate heads. Financial statements of the S.R.T.U.s. under study will be re-drafted and presented in condensed form. Various techniques of analysis such as common-size analysis, comparative analysis will be used. Statistical techniques, such as average regression, analysis of variance, range, standard deviation etc. will be used while interpreting the data wherever required, a pictorial view of the data will also be presented in the form of graphs and charts.

After making detailed interpretation and inter-firm comparison, conclusions will be drawn and appropriate suggestions will also be given to the management of the S.R.T.U.s. under study to improve their profitability as well as overall performance.

### Limitations

The study is not free from certain limitations :

1. The study based upon primary as well as secondary data, the secondary data sources vary widely in reporting.
2. In collecting the primary data, respondents bias do exist.
3. The data provided by the annual reports and accounts of S.R.T.U.s. may not be 100% correct as they too have their limitations.
4. The study is limited to selected S.R.T.U.s. in India.

### Contribution to Knowledge

Making a 'significant contribution' means 'adding to knowledge' or 'contributing to the discourse' – that is, providing evidence to substantiate a conclusion that's worth making. Research is not something done in isolation, it is a discourse among many researchers, each providing evidence and argument that contributes to knowledge and understanding, each critiquing that available evidence. Research is about 'making sense' of the world : not just describing it, but also analysing and explaining it. As more evidences are presented, the analysis and explanations are re-evaluated.

### Financial Highlights of RSRTC from 2008-09 to 2013-14

#### Total Income (In Crore)

2008-09 -	1081.89
2009-10 -	1153.06
2010-11 -	1217.42
2011-12 -	1398.63
2012-13 -	1443.32
2013-14 -	1610.45

#### Total Expenditure (In Crore)

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2008-09 -	1263.18
2009-10 -	1233.08
2010-11 -	1411.62
2011-12 -	1528.74
2012-13 -	2091.73
2013-14 -	2037.83

#### Profit - Loss (In Crore)

2008-09 -	189.23 (loss)
2009-10 -	78.95 (loss)
2010-11 -	185.00 (loss)
2011-12 -	130.60 (loss)
2012-13 -	648.41 (loss)
2013-14 -	487.86 (loss)

#### Cumulative Profit-Loss (In Crore)

2008-09 -	607.60 (loss)
2009-10 -	686.55 (loss)
2010-11 -	871.55 (loss)
2011-12 -	1002.15 (loss)
2012-13 -	1650.56 (loss)
2013-14 -	2138.42 (loss)

#### Total Income Per Km (In Paise)

2008-09 -	1800
2009-10 -	1854
2010-11 -	2032
2011-12 -	2306
2012-13 -	2445
2013-14 -	2686

#### Total Availability of Vehicles (In Nos.)

2008-09 -	4537
2009-10 -	4602
2010-11 -	4476
2011-12 -	4383
2012-13 -	4480
2013-14 -	4674

#### Operation Km (In Lakhs)

2008-09 -	6008.62
2009-10 -	6219.31
2010-11 -	5992.08
2011-12 -	6066.24
2012-13 -	5904.33
2013-14 -	5995.81

#### Block of Vehicle Utilisation (In Percentage)

2008-09 -	93
2009-10 -	94
2010-11 -	93
2011-12 -	94
2012-13 -	91
2013-14 -	90

#### Total Expenditure per Km. (In Paise)

2008-09 -	2102
2009-10 -	1983
2010-11 -	2356
2011-12 -	2520
2012-13 -	3015
2013-14 -	3399

### Conclusion and Suggestion

The Logit Probability Analysis method adopted for the measurement of probability of bankruptcy in the RSRTC is a multivariate statistical method suggested by Mr. C V Zaygren. According to the application of this method on RSRTC, the following conclusion are drawn :-

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1. The null hypothesis is accepted, as the undertakings under study are facing financial distress.
2. The RSRTC under study is very likely to face bankruptcy, if corrective steps are not adopted immediately
3. The main reason of the high probability of bankruptcy in RSRTC is its debt ratio. Immediate attention needs to be paid to correct the debt ratio.
4. The probability of bankruptcy in RSRTC is very high which is close to the peak probability of bankruptcy. The accounting variable with a negative coefficient responsible for this situation is the debt ratio. Determined and immediate efforts need to be promptly taken to avoid this situation from occurring.

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